

Turkey's Unorthodox Monetary Policy Strengthened with Macro Prudential Measures and The Consequences

Saruhan Özel, Ph.D.

***DenizBank
Chief Economist, EVP***

Macroprudential measures heavily used in Turkey since 2010 as in many countries...

1st Step (2010-2011):

- Increase in **TL reserve requirements (RRs)**: from 6% → max 14% (Currently 11.2%)
- Decrease in the **renumeration of RRs**: 5% → 0%
- Increase in **general provision rates** for consumer loans: 1% → 4% (for second group: 2% → 8%)
- Increase in **risk weights** for consumer loans: 100% → 150% (with maturity between 1 and 2 years); → %200 (with maturity above 2 years).

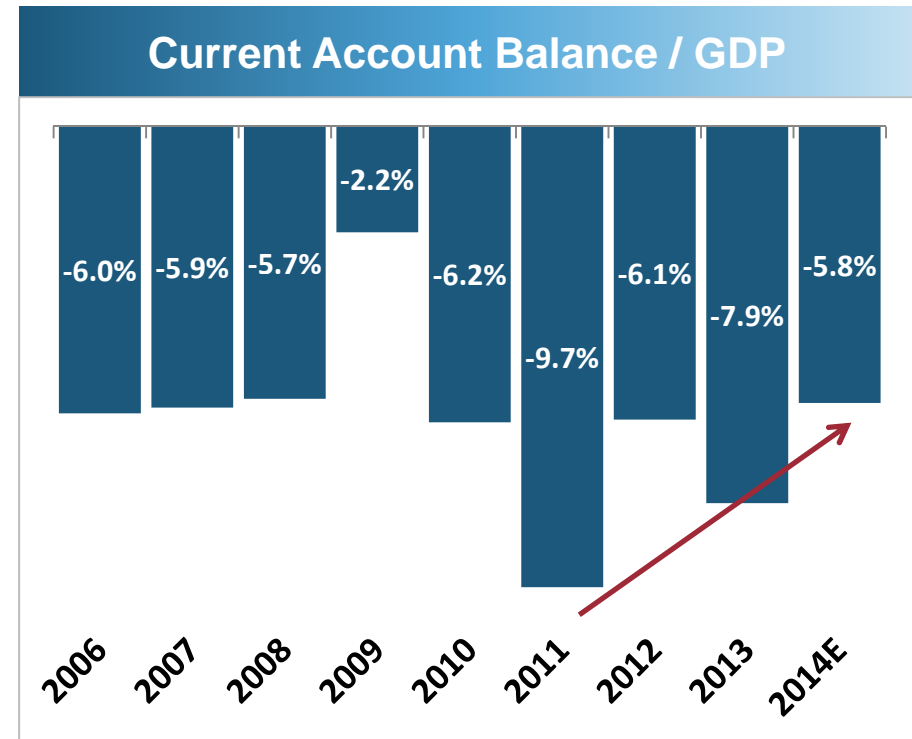
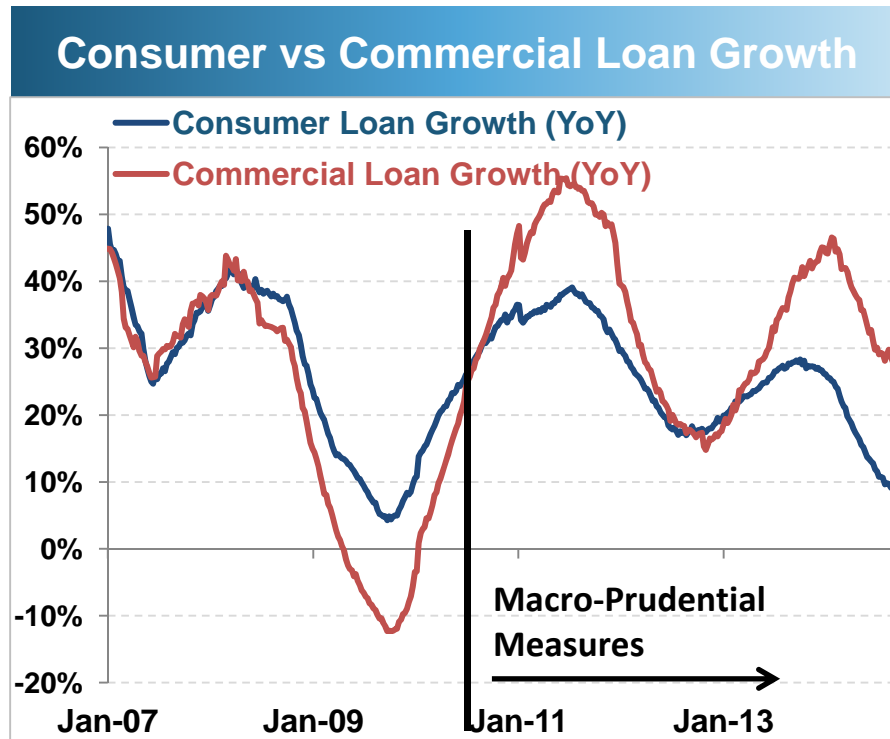
2nd Step (2012-2013):

- %2.02 **upper limit for overdraft account rates**
- **Caps on Credit Card limits** (4 times the monthly income)

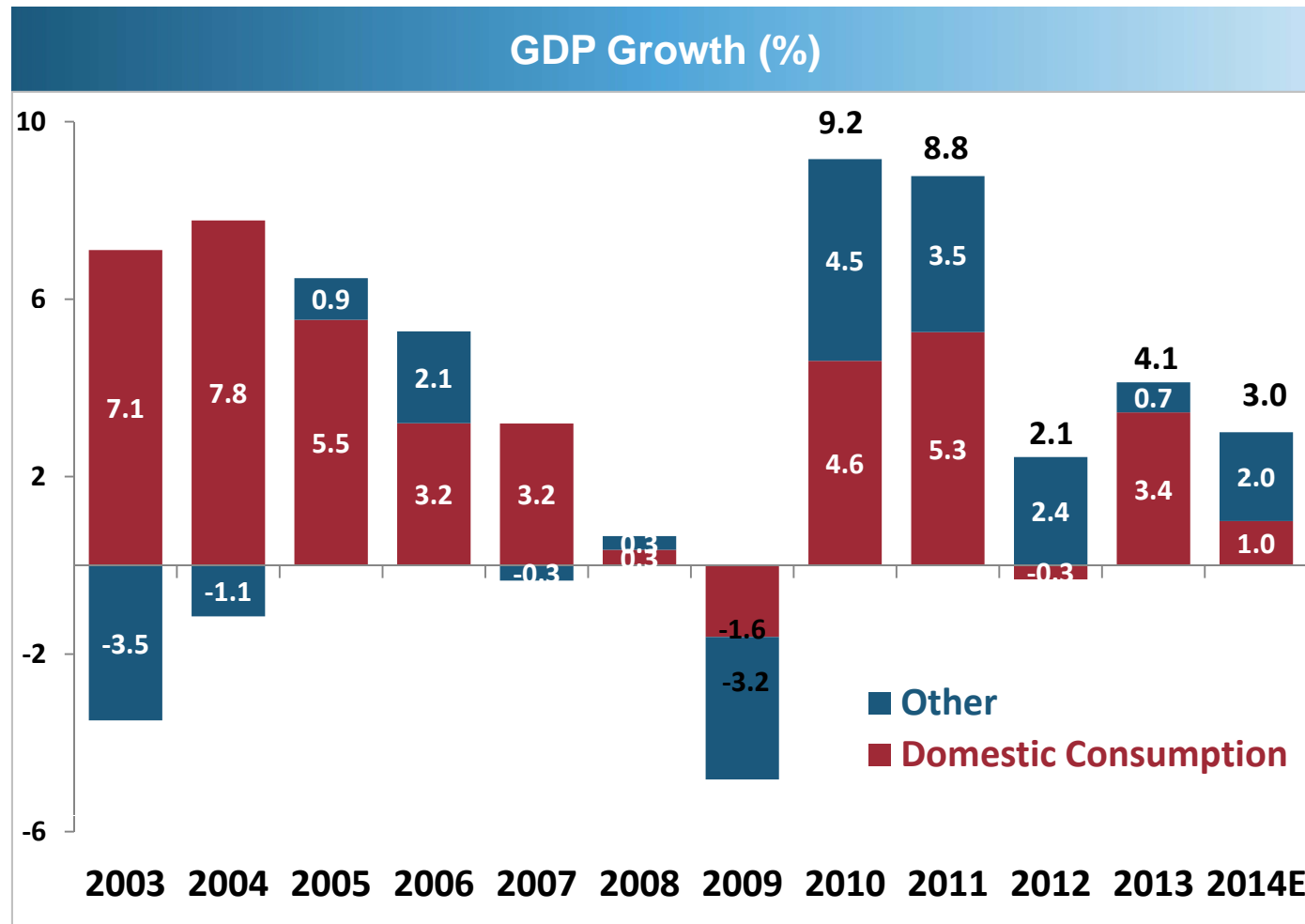
3rd Step (2014 →):

- Limitations on the **number of installments on credit card payments**, loans could be given up to 70% for the auto loans below 50K and 50% above 50K; 75% of mortgage lending.
- New regulations restricting **fees and commissions** taken on credit cards and consumer loans.

Results as intended: *Loan growth and Current Account Deficit down...*

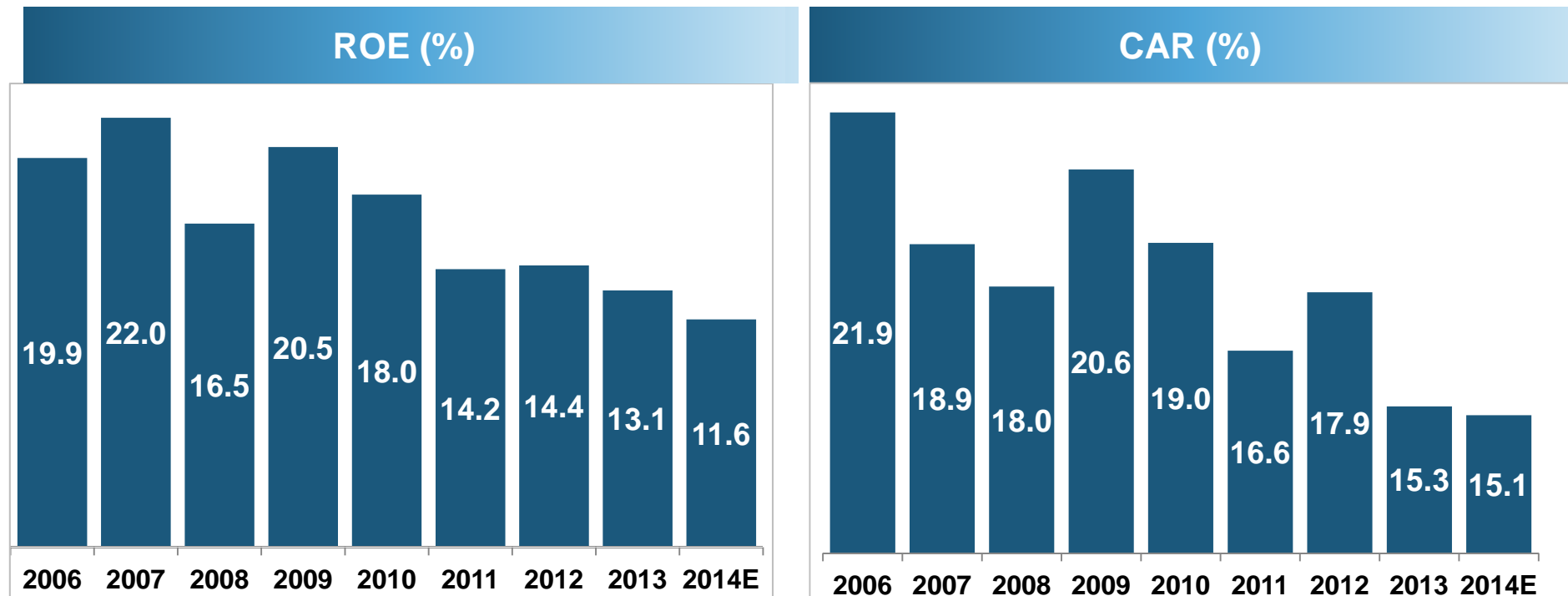


GDP growth has slowed markedly also as expected...



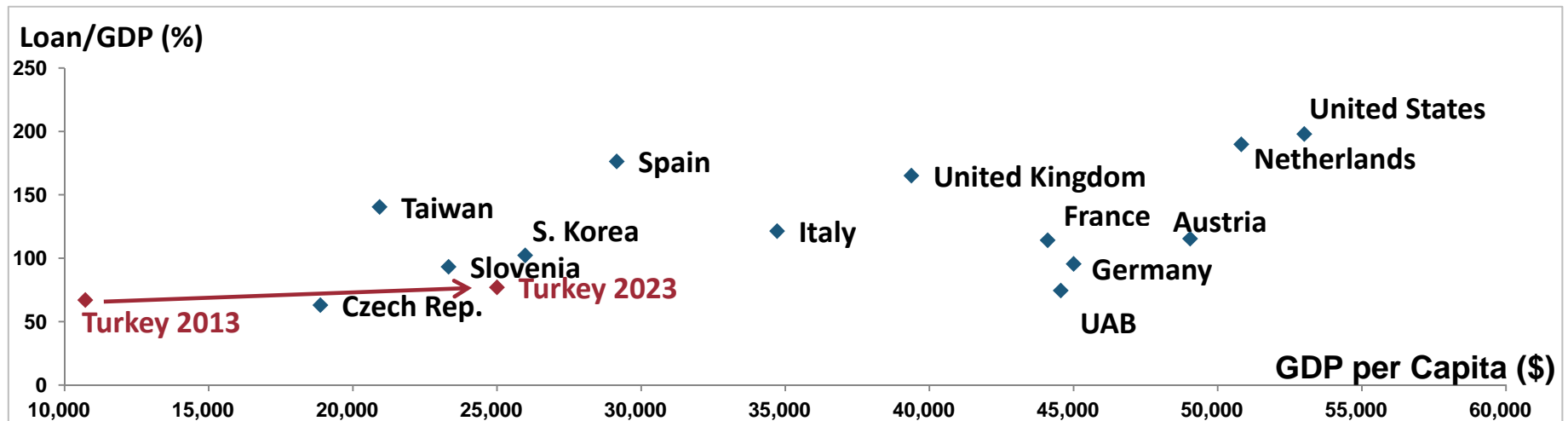
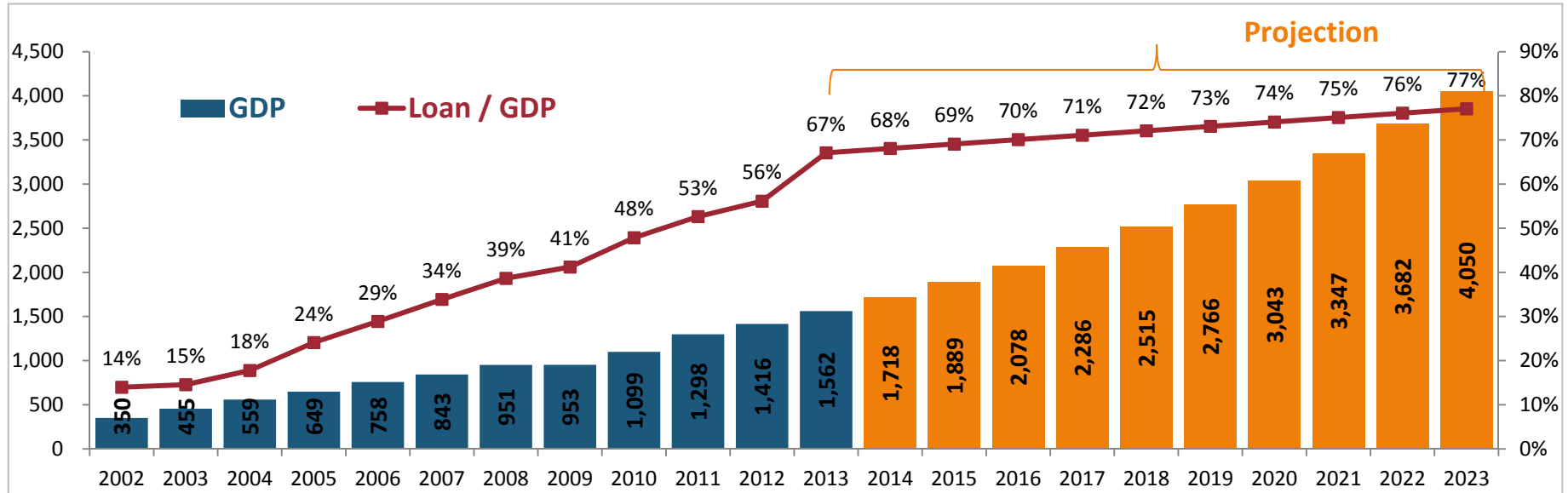
Source: CBRT

Banking sector profitability and capital adequacy down significantly...



Wither the 2023 Economic Targets ?

Banks' ROE > 14.5% on avg in the next decade to keep the CAR stable and support growth



Source: BRSA

Macprudential Policy must be accompanied with...

- **Remuneration of Reserve Requirements**
- **No Additional Restrictions on Fees and Commissions (retail loan growth is already at historical low levels).**
- **Decrease in Provisions and Risk Weights**
- **Promotion of Loan Growth in Strategic Sectors**
- **Fairer Competition with State Banks (elimination of state subsidies)**
- **Improvements in Bankruptcy and Enforcement Law and Regulations (eliminating the abuses in bankruptcy deferral)**
- **Exercising strict enforcement rules against any unfair reports and commentary against banks**
- **Decreasing Sector's Direct / Indirect Tax Burden**
- **Paying attention to SIFI issue**

Effective Tax Rate in 2013

1. Corporate Tax: TL6.5 bn
2. Other Taxes (tax, charges & other duties): TL1.9 bn
3. Cost of Reserve Requirement: TL7 bn

Total: TL15.4 bn

➤ This is equal to 62% of 2013 annual net profit of TL24.7 bn